The Real Estate ANALYST

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A concise, easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. A report on current studies, surveys, and forecasts constantly measuring the basic economic factors responsible for changes in trends and values.

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REAL ESTATE ACTIVITY

ALTHOUGH it has been a score of years since we discovered the national real estate cycle, we have never once relaxed our efforts to add to our basic data and to develop local and regional activity patterns. While we have barely scratched the surface, our file of information has grown enormously, and in this issue of the Analyst we are publishing the fruit of two decades of intensive research in the field of real estate economics.

Even though the national real estate activity index is an extremely useful barometer of market pressures, the local and regional patterns are even more valuable, especially when they can be compared with the national index. Consequently, our chief aim is to build up as much local information as possible.

On the following pages are charts showing real estate activity in 56 cities. Most of the charts go back to 1933, but in a few cities the data are available for only two or three years. Those cities that do not go back to 1940 are not compared with the national average because the local figures must be carried back at least that far before a comparison can be made. The city of Omaha is not comparable with the national average because the index for that city is made up of "for sale" ads in Omaha newspapers. This is not a particularly reliable index but it is the best now available to us.

The charts on pages 382 through 384 show the various regional patterns of real estate activity. We have also shown the national real estate activity on page 384 for purposes of comparison. The reason we have placed this chart in such an apparently inappropriate position is in order to facilitate comparison with each region. This placement makes possible comparison with the other two charts on the same page and, by folding page 384 back, the national average chart can be fitted below any of the other four charts appearing on pages 382 and 383.

Over the long pull there is a very close correlation between the booms and depressions of the different regions. It will be noticed that during each boom some section of the country is particularly outstanding. In the present boom the Southwest region has had the most spectacular real estate activity, and its two recovery periods, the first in late 1947 and the second in late 1948, have been quite vigorous. At present it appears that this region is well on its way into another period of strong recovery. Prior to the present boom the most active region has been the Pacific Coast. Its recovery periods during this boom, however, have not been nearly so strong as those enjoyed by the Southwest. It should be pointed out that the declining side of the real estate cycle is nearly always characterized by these periods of re-

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REGIONAL PATTERNS OF REAL ESTATE ACTIVITY

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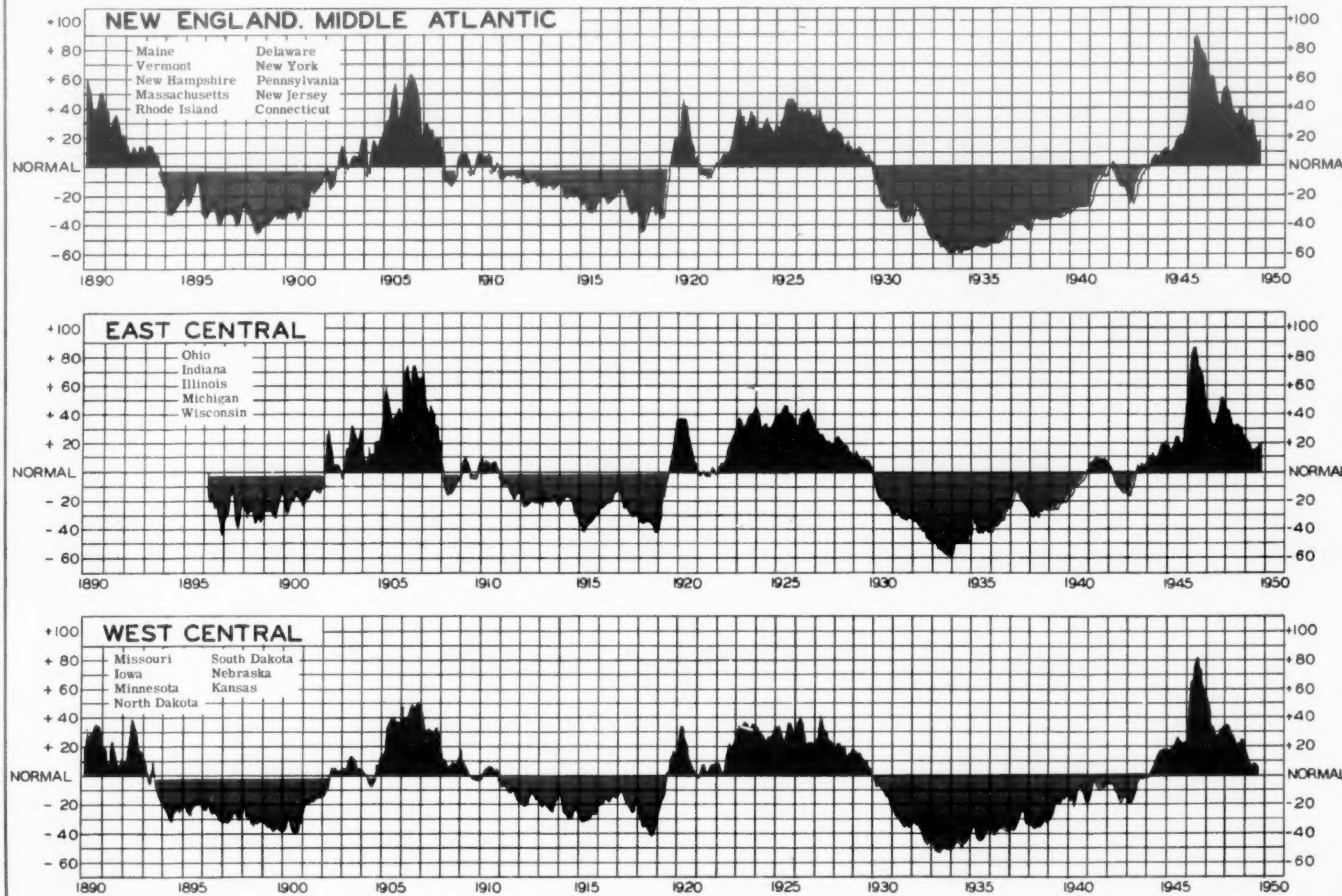

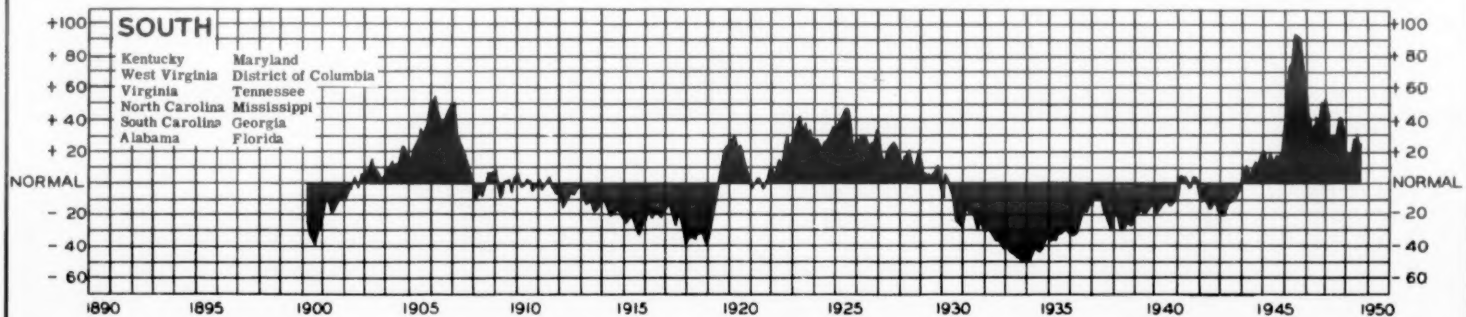

REAL ESTATE ACTIVITY

(cont. from page 381)

covery. The national cycle has had two during the present boom and is apparently entering a third one. Although these recoveries are usually short-lived, they afford excellent opportunities for the aggressive brokers to bolster their companies' slumping sales records.

Most of the 56 charts on local activity show decided periods of recovery since the peak of the present boom. Virtually all of these cities have recorded a declining trend in real estate activity since 1946, but most of them have also shown two or three spurts toward recovery. Those cities where recent recovery has been most sturdy are Dallas, Texas; South Bend, Indiana; Salt Lake City, Utah; and Oklahoma City, Oklahoma. Detroit, Houston and Seattle have also had pretty good recovery this year and Chicago seems to be moving into its third period of renewed activity. Philadelphia, Pennsylvania, and Portland, Oregon, appear to be about wound up with their present recovery. Very probably they will experience one or two more minor upswings in the next year or so. Likewise, it is possible that most other cities will show signs of recovery even though the trend will be down.

Duluth had a very strong recovery a few months ago but has fallen off rapidly since May of this year. Cities that have shown very little in the way of recent recovery are Los Angeles, San Francisco and Jersey City. Boston has dropped sharply following a recovery period that peaked out in March of this year.

We have been on record for some time with our opinion of national real estate activity. We think that the signs point to a downward trend for the next six to eight years. This does not mean that all regions will decline at exactly the same time or in the same degree as the national average. There will be a close similarity in the pattern of decline but some regions will be better off than the national average will indicate. This same tendency will be true at the local level to even a greater extent.

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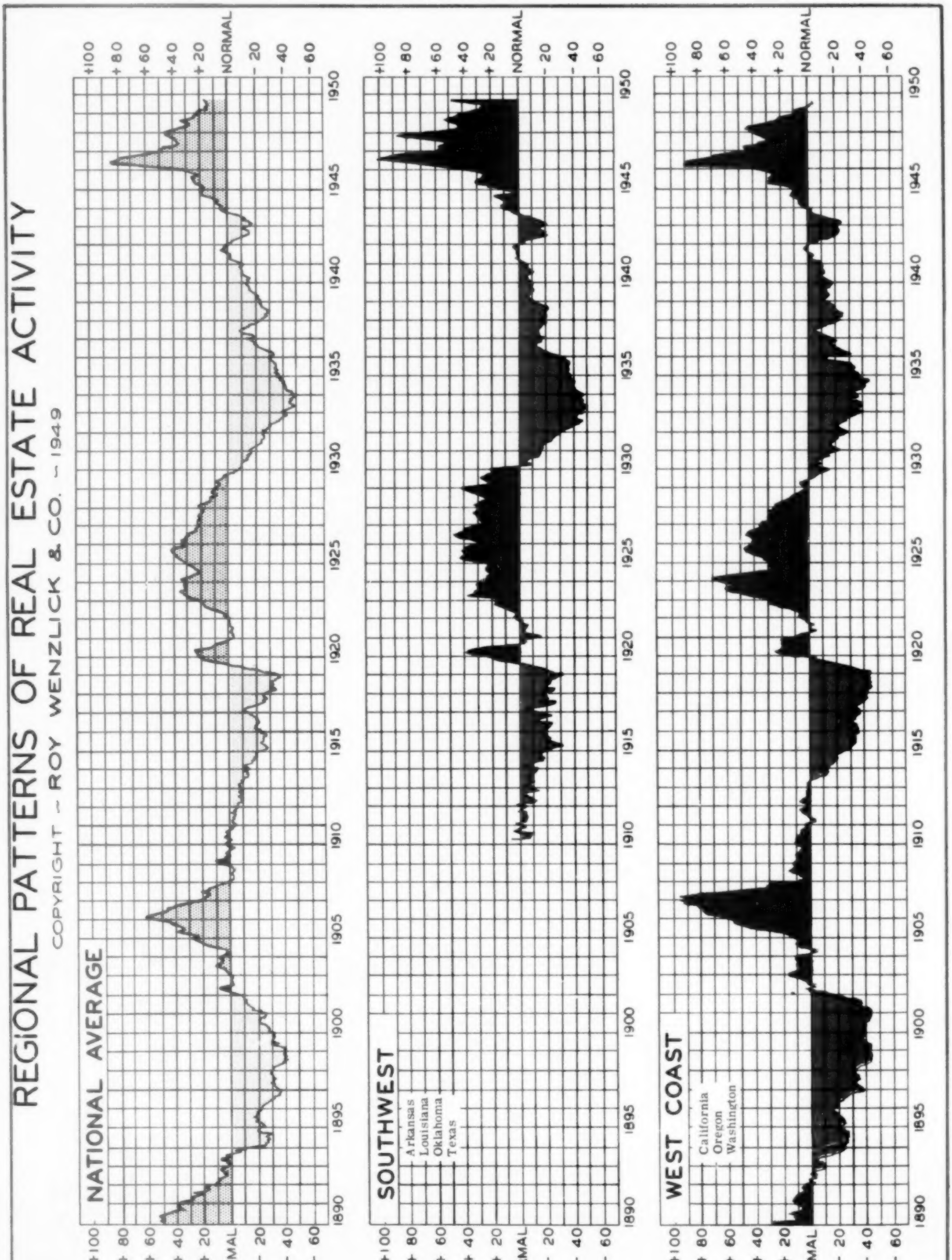
REGIONAL PATTERNS OF REAL ESTATE ACTIVITY
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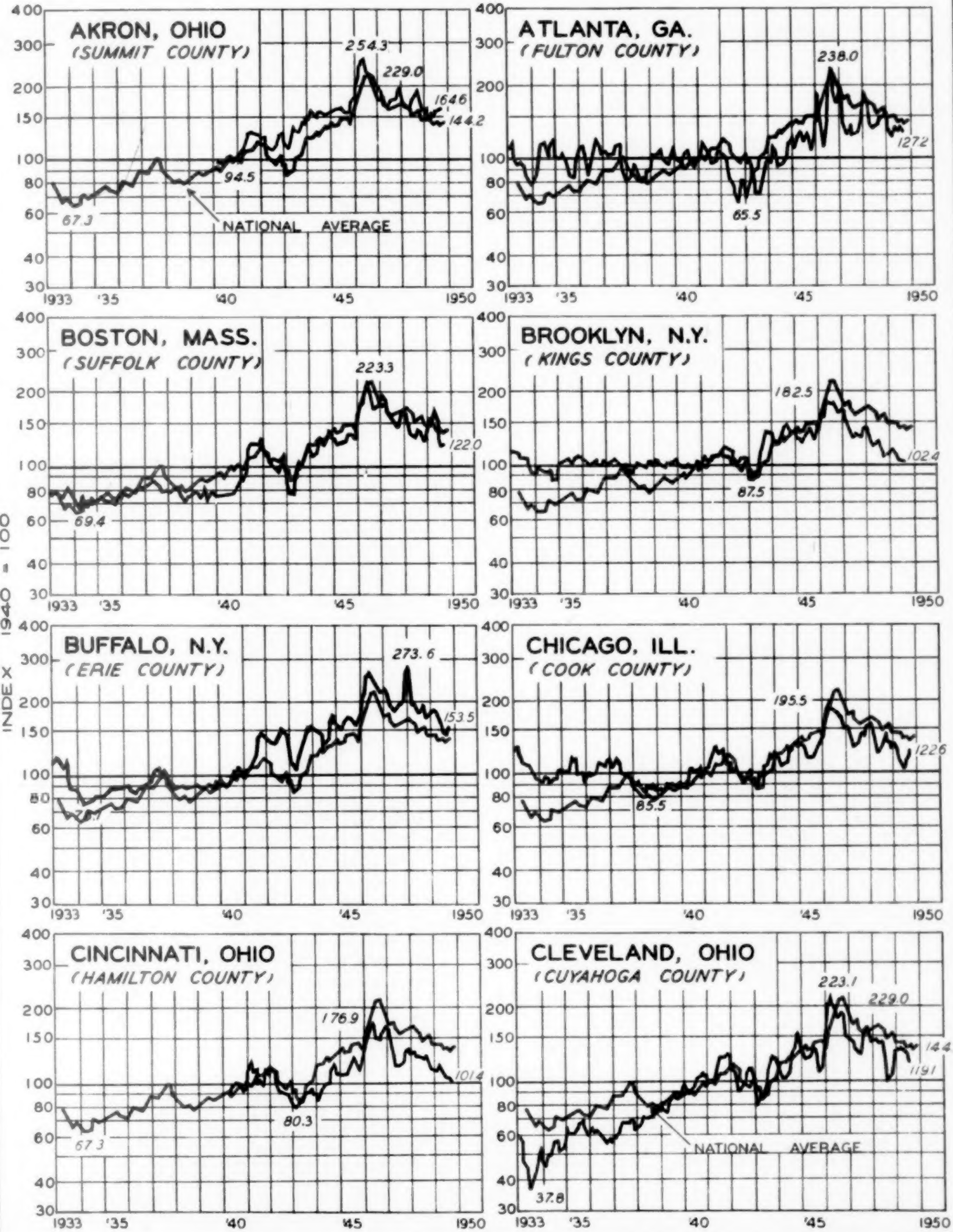
NATIONAL AVERAGE
SOUTHWEST
Arkansas
Louisiana
Oklahoma
Texas
WEST COAST
California
Oregon
Washington
+100
+ 80
+ 60
+ 40
+ 20
NORMAL
- 20
- 40
- 60
1890
1895
1900
1905
1910
1915
1920
1925
1930
1935
1940
1945
1950

REAL ESTATE ACTIVITIES IN PRINCIPAL CITIES



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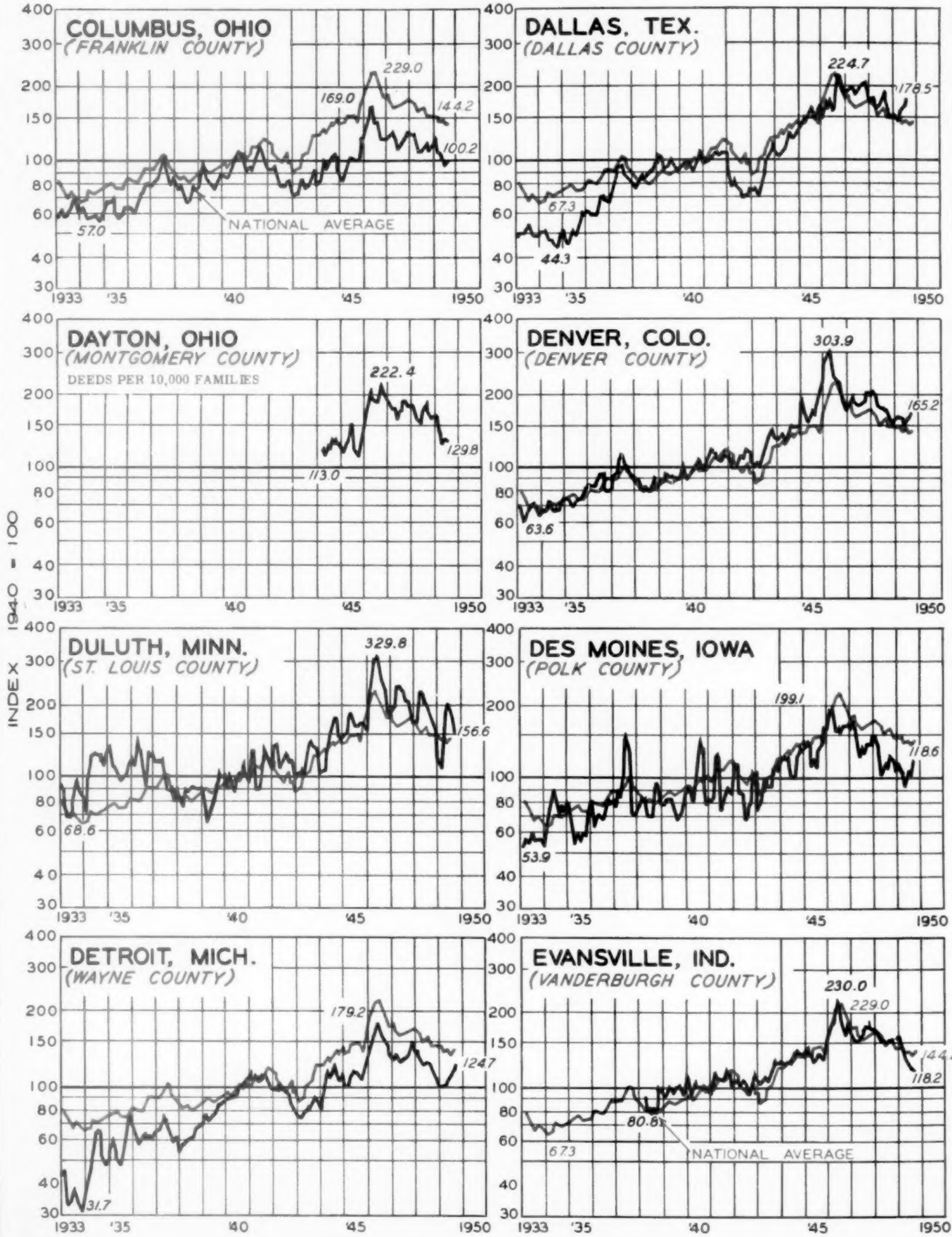

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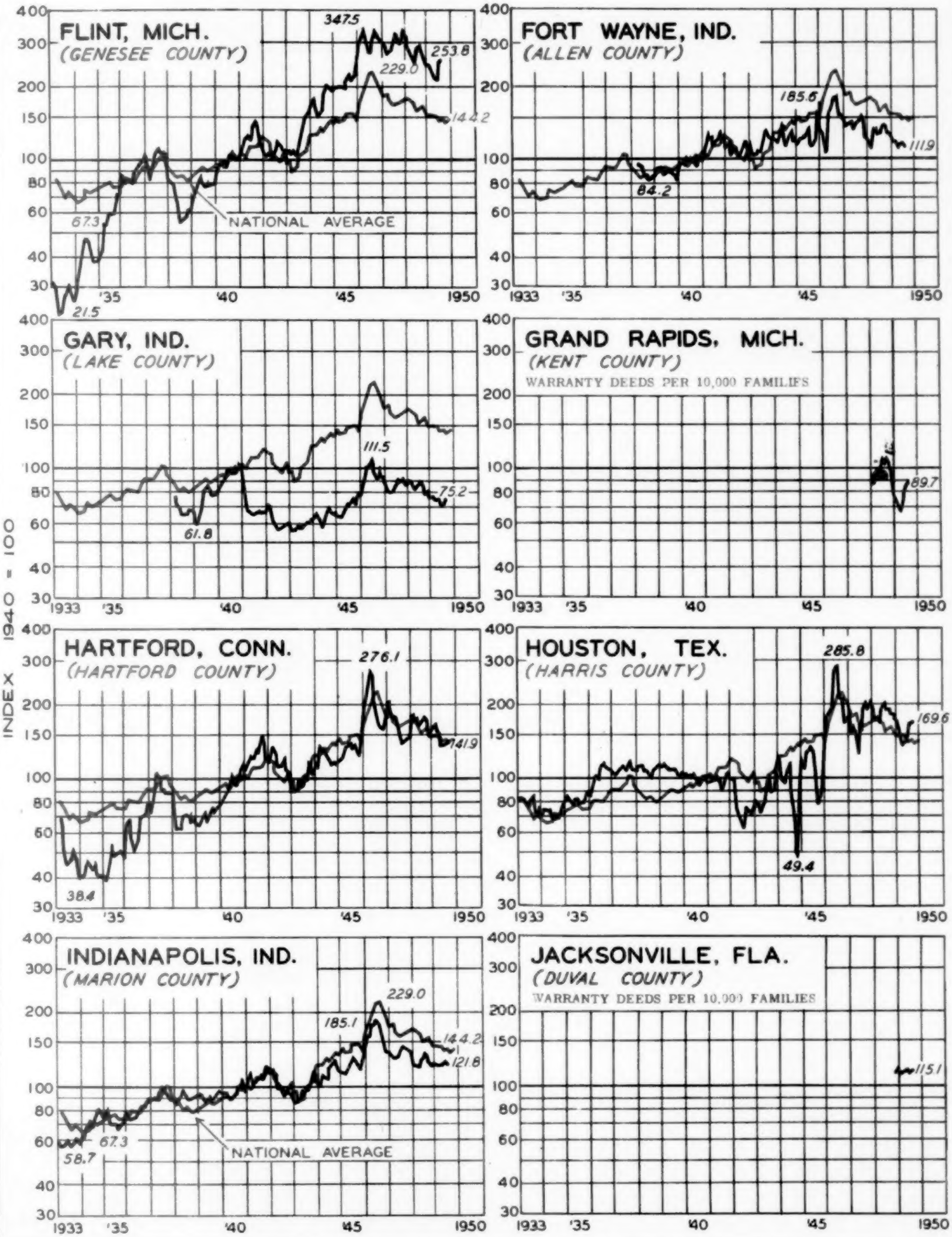

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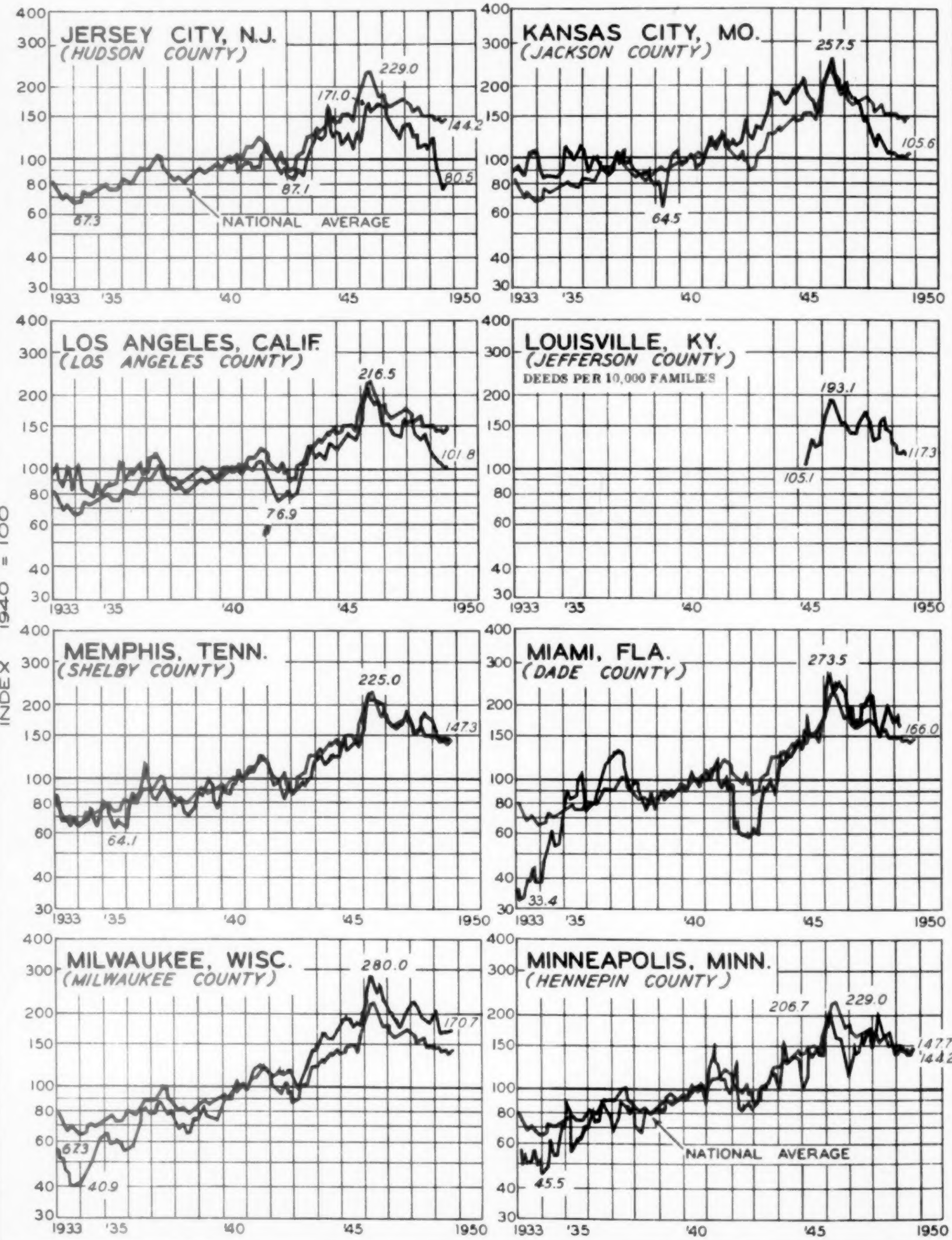

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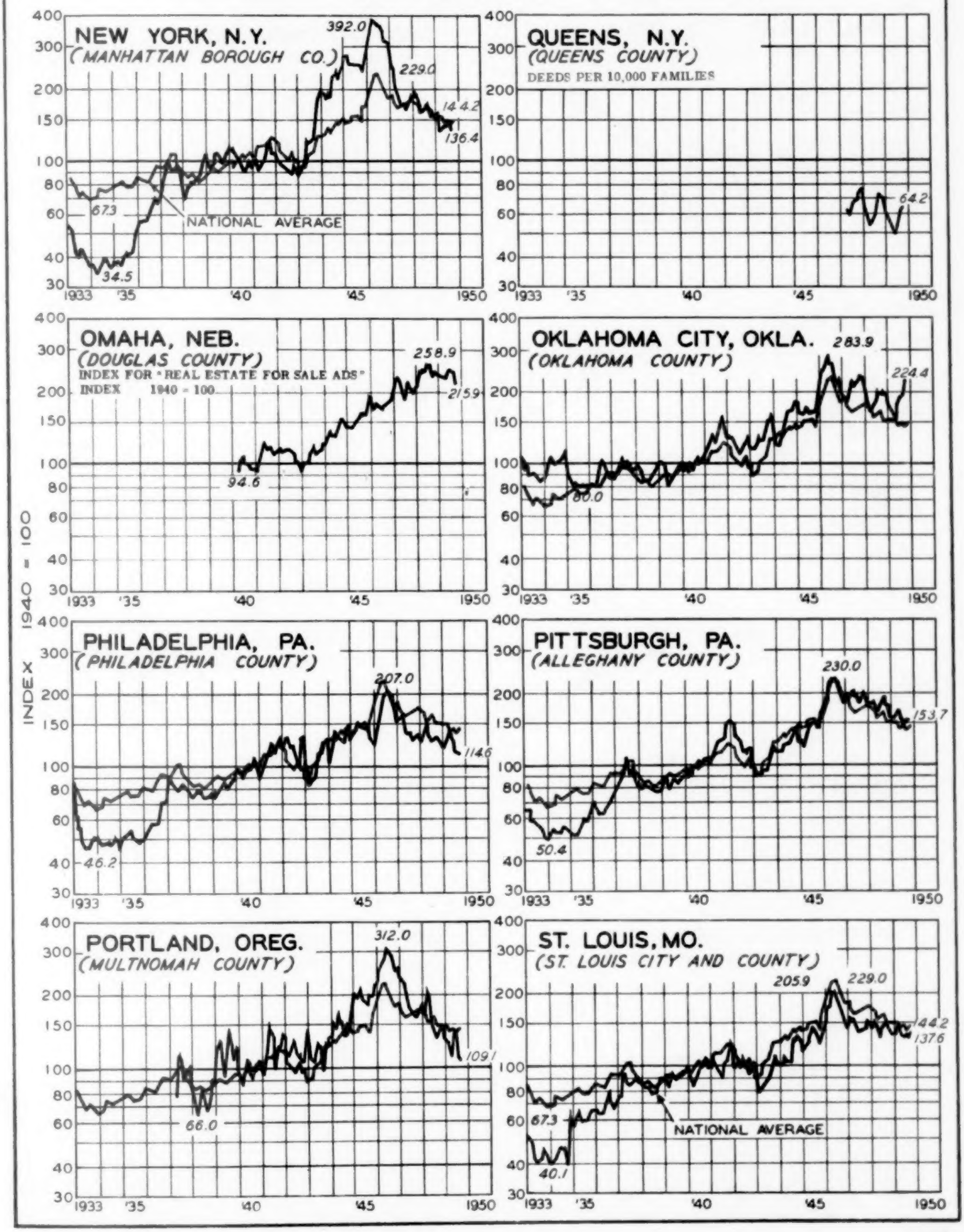

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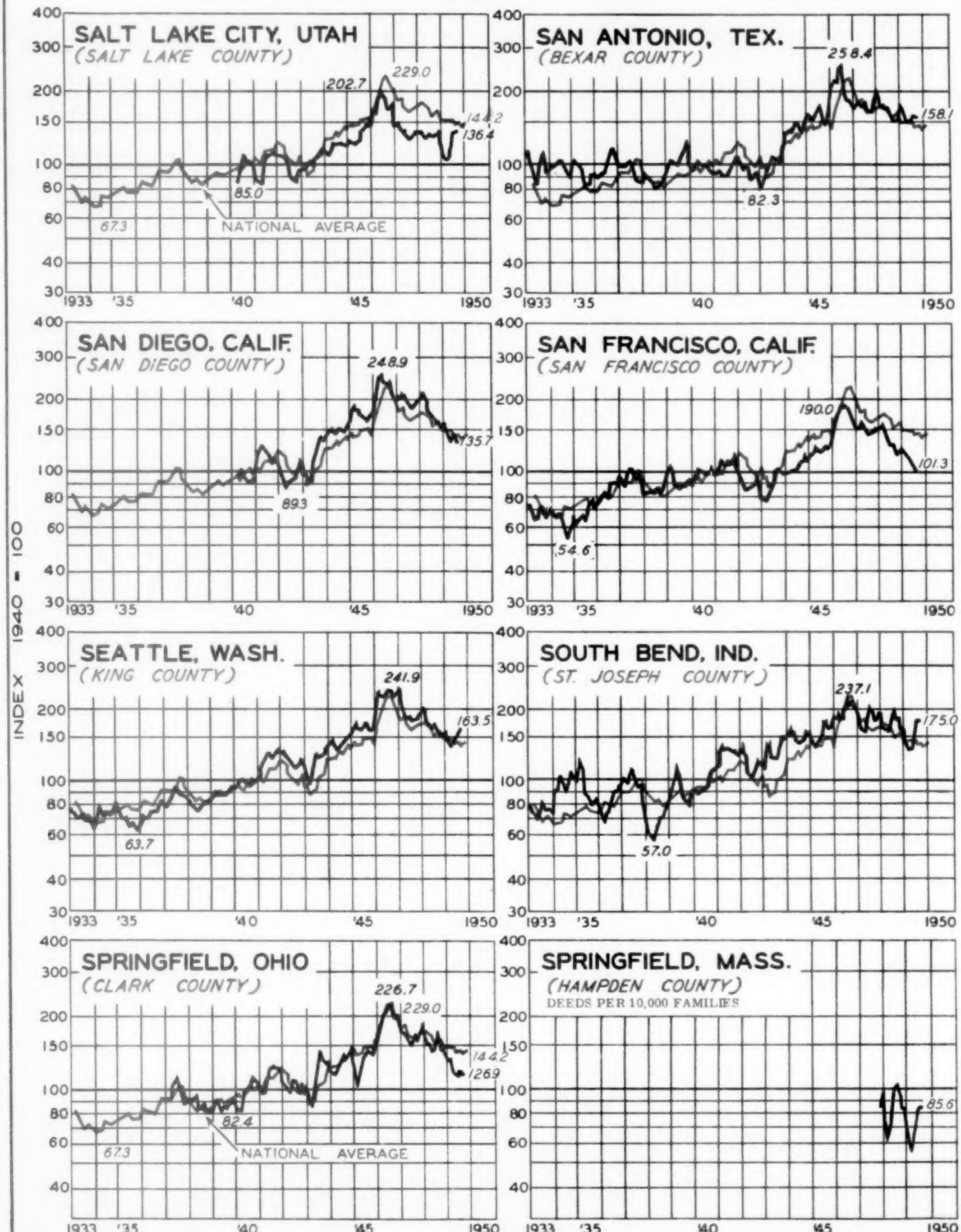
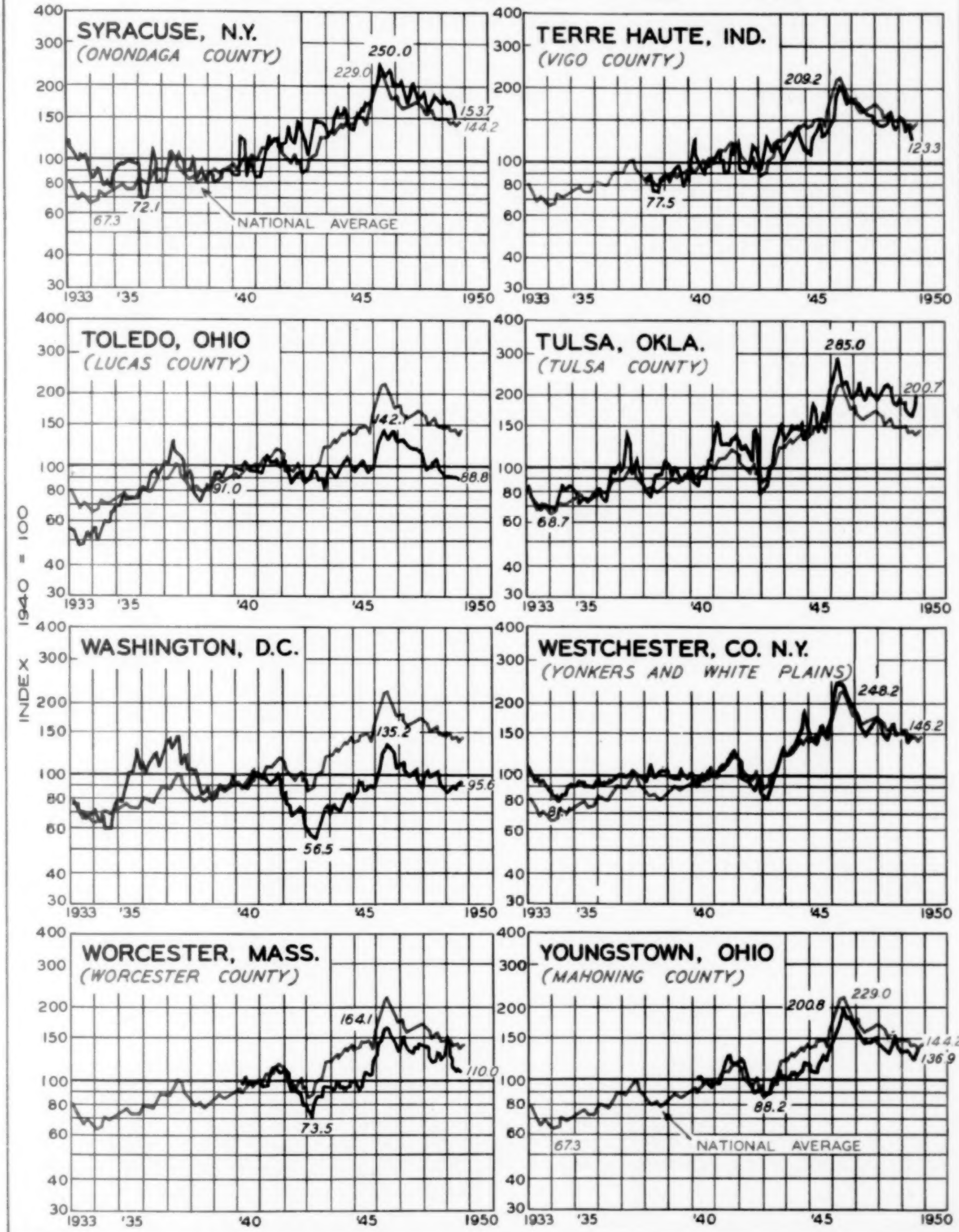
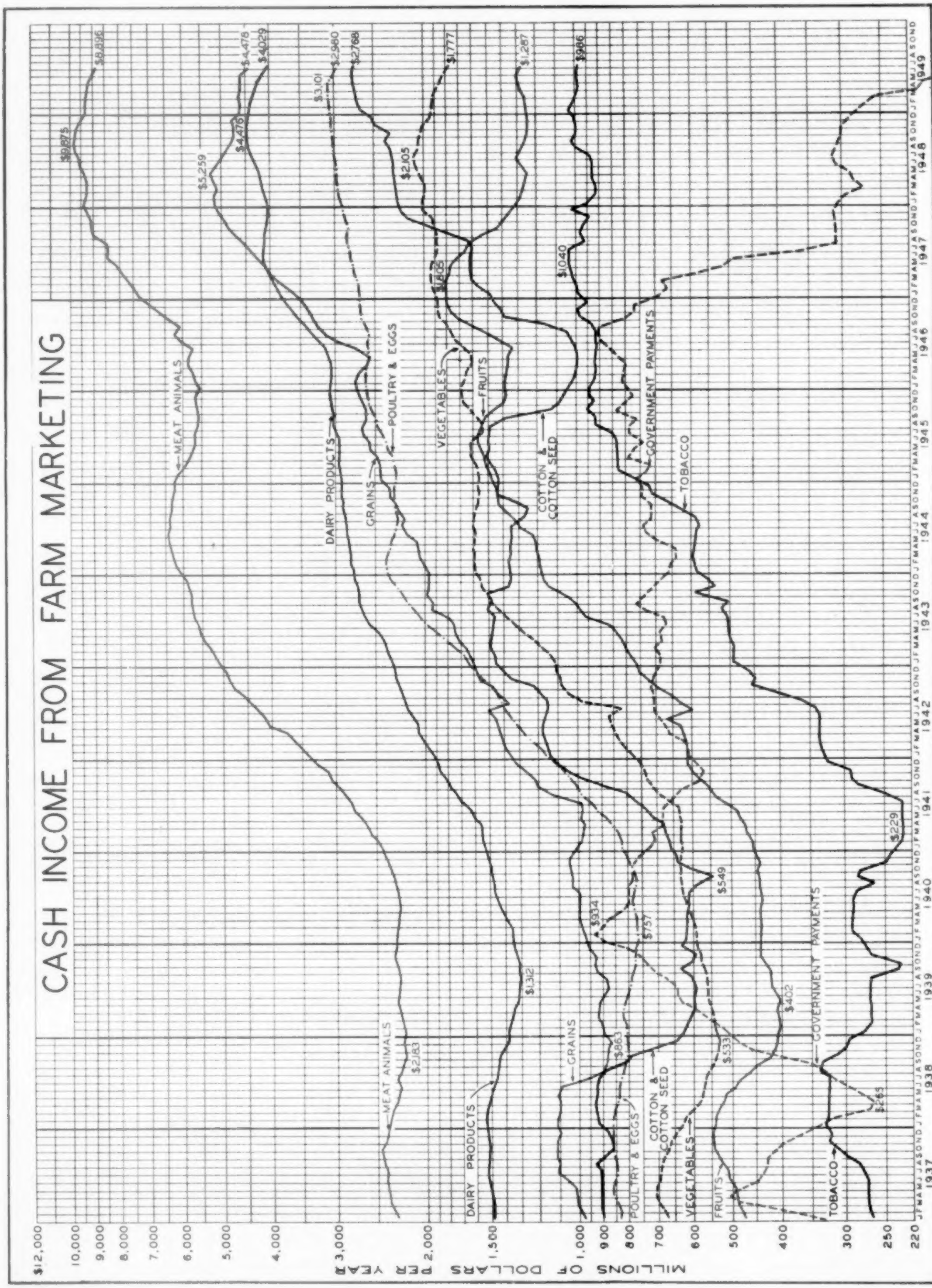


REAL ESTATE ACTIVITIES IN PRINCIPAL CITIES





CASH INCOME FROM FARM MARKETING
MILLIONS OF DOLLARS PER YEAR
$12,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,500
1,000
900
800
700
600
500
400
300
250
220
1937
1938
1939
1940
1941
1942
1943
1944
1945
1946
1947
1948
1949
MEAT ANIMALS
DAIRY PRODUCTS
GRAINS
POULTRY & EGGS
COTTON & COTTON SEED
VEGETABLES
FRUITS
TOBACCO
GOVERNMENT PAYMENTS
$2,183
$1,312
$863
$934
$757
$533
$549
$402
$265
$229
$9,875
$8,896
$5,259
$4,476
$4,478
$4,029
$3,101
$2,980
$2,768
$2,105
$1,602
$1,777
$1,287
$1,040
$986
$178

FARM INCOME CONTINUES TO DROP

DURING the first 7 months of 1949 cash receipts from farm marketing reached slightly over $14.0 billion, compared with $15.4 in the same period of 1948. This 10% drop for the country as a whole was not typical of the individual States. In fact, 15 States have shown an increase in farm income during this period. They are: Maine, Delaware, Maryland, South Carolina, Florida, Kentucky, Alabama, Mississippi, Arkansas, Louisiana, Wyoming, New Mexico, Arizona, Nevada and Washington. The increase in these States was due mostly to higher incomes from the marketing of crops rather than higher incomes from the marketing of livestock and dairy products. Of the crops that have caused these rises, cotton contributed the most. During January-July 1949 cash receipts from the marketing of cotton increased 45% over the same period in 1948. Cash income from marketing potatoes and citrus fruits also increased, as did the income from the marketing of feed crops.

The chart on page 392 shows cash income from farm marketing from 1937 through July 1949. One cheerful feature of this chart is the manner in which government payments have been dropping. In July of this year they attained their lowest level during the period covered by the chart.

The outlook for prices of farm products continues to be a hodgepodge of ups and downs. Hog prices are expected to be lower this fall due to the big spring pig crop. On the other hand, good beef cattle are likely to continue to bring steady prices for a while at least. Due primarily to the fact that nearly 30% more turkeys are being raised this year than last, the Thanksgiving and Christmas dinners can be expected to cost less. Although egg prices may rise in the next few months, a less than seasonal rise is expected.

REAL ESTATE ACTIVITY

(cont. from page 383)

In order to get some idea of the future of real estate activity on the local level it is elementary to study the supply and demand factors that have been building up for the last few years. The most reliable indicator of demand is the rate of new family formation as evidenced by the local marriage rate. (See July 1949 Real Estate Analyst, pages 289-293.) To these families that are formed by marriage should be added the families that have moved into the area from outside.

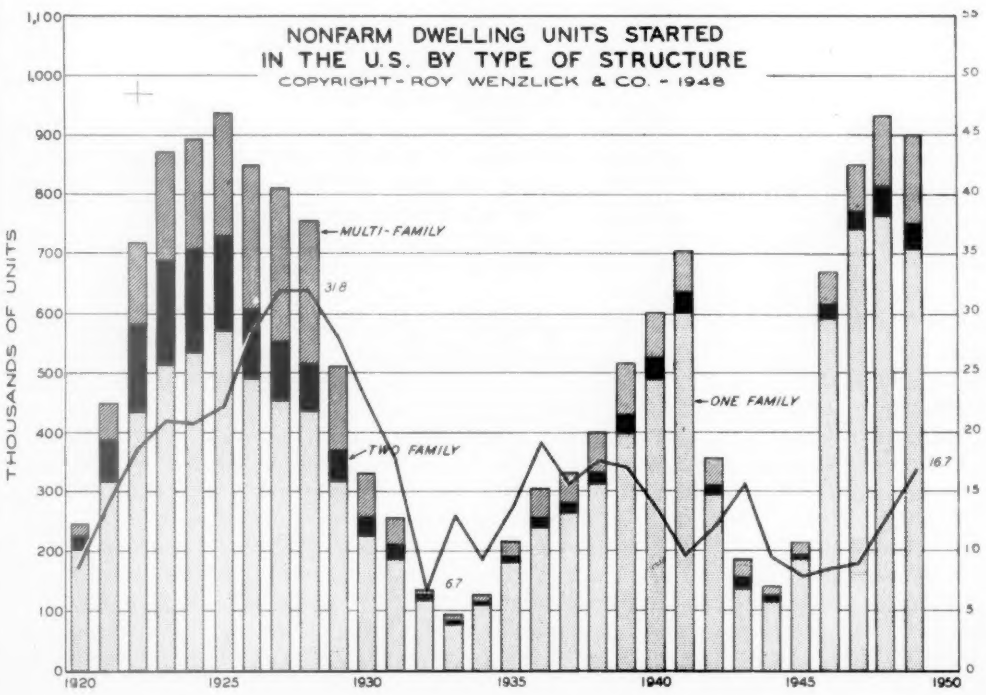
The supply side of the equation is, naturally, affected by the rate of new residential construction and conversion. If residential units are provided at too fast a pace for them to be absorbed by the families moving into the area and by the new families being formed by marriages, real estate activity will eventually suffer from unusually high vacancy and unusually low rents. The degree to which activity will be depressed will depend upon the width of the gap between the supply and demand for residential units. (Our Construction Bulletin published quarterly shows the rate of residential construction in 140 metropolitan areas.) Unfortunately, a complete study of these supply and demand factors is not so cut and dried as we have intimated. The alert broker or mortgage lender can gain some idea of the coming real estate picture in his area by watching residential construction volume and the marriage rate, but these data are in turn affected by demolitions and conversions of residential units and by deaths and divorces, and by the net change in the number of families moving into and out of the area.

RENTAL UNITS ON THE INCREASE

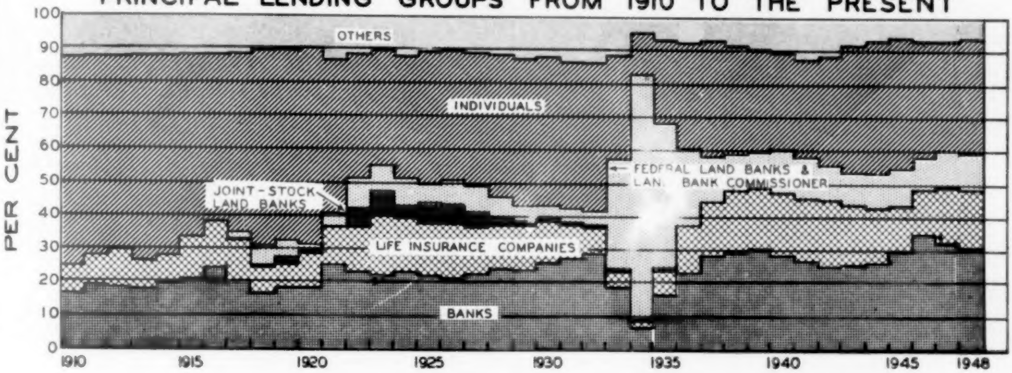
SINCE the removal of rent controls on new units in mid-1947, the construction of rental housing has played a far more important role than it did during the hectic period of 1945-1947. Normally, at least half of our nonfarm families live in rented units, so the existence of a healthy expanding rental housing market is vital to the welfare of the country. The rental market today is slowly expanding. A very large percentage of rental units are still under control and apprehension over the course our government may take is obviously keeping some rental housing entrepreneurs on the side lines. Despite this dampening effect, the amount of rental housing being constructed is increasing.

In 1948 there were 117,900 multifamily units built. This is the largest number started in any year since 1929. Probably about half, or 23,000, of the two-family units started last year were also for the rental market; thus nearly 141,000 new rental units were added to the market last year. In 1949 we estimate that upwards of 170,000 new rental units will be started, 150,000 of them in the multifamily group and 20,000 in the two-family group.

The chart below shows the number of one-family, two-family and multifamily nonfarm dwelling units started in the United States from 1920 through 1949. Naturally the 1949 figures are estimated. The red line running through the chart represents the percentage of multifamily units started each year. The high point was in the years 1927 and 1928 when 31.8% of all nonfarm residential units started were in multifamily buildings. The percentage for 1949 is estimated at 16.7%.



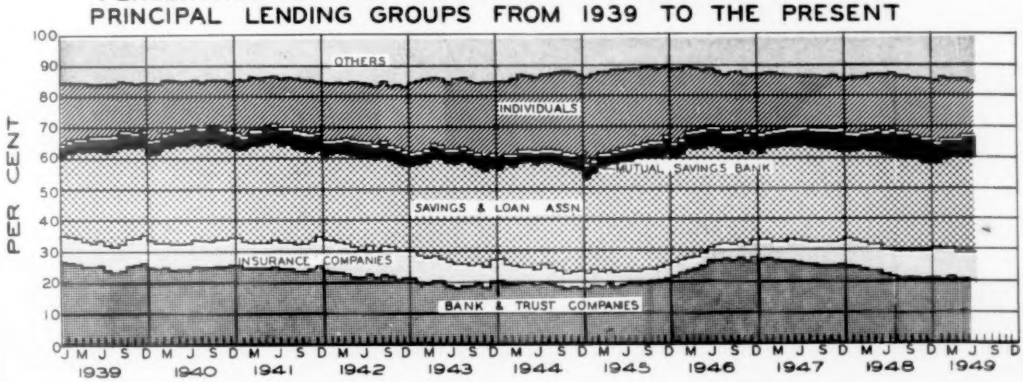
PERCENTAGE OF NEW FARM MORTGAGES MADE BY PRINCIPAL LENDING GROUPS FROM 1910 TO THE PRESENT



The chart above shows the changes that have taken place in farm financing since 1910. In that year the financing of farms was carried on almost entirely by individuals and banks. Since then other financial agencies have come into being and have played a major part in farm loans. The Land Bank and Land Bank Commissioner loans have played an outstanding part in farm financing, particularly during the mid-thirties. Banks and insurance companies have also increased their participation in farm financing.

The chart below shows the principal lending groups that engage in nonfarm financing. Savings and loan associations are the most important group in this field, followed by banks and individuals. During the last two or three years the participation by banks has been dwindling slowly. In early 1947 banks made 27.3% of the nonfarm loans, but by mid-1949 this figure had sunk to 20.3%. This drop has been offset by increased participation on the part of insurance companies, mutual savings banks and individuals.

PERCENTAGE OF NEW NON-FARM MORTGAGES MADE BY PRINCIPAL LENDING GROUPS FROM 1939 TO THE PRESENT



BANKS' REAL ESTATE HOLDINGS AT NEAR LOW

THE chart at the bottom of the page shows the amount of real estate owned by banks in the United States from 1865 to the present. This chart does not deal with mortgages but shows only the real estate owned outright. The dotted lines depict all real estate owned, including the premises of the banks and their furniture and fixtures. The solid lines show the value of all real estate owned by banks, excluding the premises of the bank.

In examining this chart, attention should be focused on the two scales. The blue scale at the left is to measure the rise and fall of the blue lines representing national bank real estate values, while the red scale at the right deals with the red lines measuring the values of real estate owned by other banks.

We believed last year that "outside" real estate holdings of other banks (solid red line) had reached their low point and would start leveling off. This, however, has not been the case. In fact, they have dropped even more rapidly.

After reaching a low point in early 1948, the "outside" real estate holdings of national banks (solid blue line) began to rise and in June of this year reached $10.0 million.

The actual volume of real estate held by banks has fallen a great deal more than the dollar figures on the chart indicate. Naturally, this is because the value of real estate is at a much higher level than it has ever been before, while the dollar value of real estate held by banks is at or near an all-time low. Even though the value per building is higher than ever before, the dollar volume is far below any previous figure.

We doubt whether the real estate holdings of banks will approach the level they attained during the mid thirties any time in the foreseeable future.